

1 **BEFORE THE**  
2 **PUBLIC SERVICE COMMISSION OF WISCONSIN**

3 Application of Madison Gas and Electric  
4 Company for Authority to Change Electric  
5 and Natural Gas Rates

Docket 3270-UR-117

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6 **DIRECT TESTIMONY OF TAMARA J. JOHNSON**  
7 **ON BEHALF OF APPLICANT**

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8 **Q. Please state your name and business address.**

9 A. My name is Tamara J. Johnson. I am the Senior Director - Financial Reporting and Budgets  
10 for Madison Gas and Electric Company (MGE) and my business address is 133 South Blair  
11 Street, Madison, Wisconsin 53703.

12 **Q. What is your educational background and work experience?**

13 A. I graduated from the University of Wisconsin-Madison in 1986 with a bachelor of business  
14 administration degree in accounting and information systems. Since June 1993, I have been  
15 employed by MGE as an Internal Auditor, EDP Auditor, Director - Budgets and currently  
16 Senior Director - Financial Reporting and Budgets. I have been in this position since July  
17 2004. Prior to my employment with MGE, I was a Manager at Morton, Nehls and Tierney,  
18 S.C., a public accounting firm located in Madison, Wisconsin. I am a Wisconsin certified  
19 public accountant and a member of the Wisconsin Institute of Certified Public Accountants.

20 **Q. What is the purpose of your testimony in this proceeding?**

21 A. The purpose of my testimony is to present the electric and gas income statements including  
22 the operation and maintenance expense estimates for the test year (the 12 months ended  
23 December 31, 2011) and the electric and gas average net investment ratebase for the test year.  
24 I also will explain the major factors contributing to the Company's proposed rate increases and  
25 the steps taken to hold down those increases.

1 **Q. Was Exhibit 1 prepared by you or under your supervision?**

2 A. Yes.

3 **Q. Please describe what is presented in Exhibit 1, Schedules 1 and 2.**

4 A. Both schedules contain the test-year estimates and, for comparative purposes, the final figures  
5 approved in Docket 3270-UR-116 for operating revenues, operation and maintenance  
6 expenses, and other expenses to determine net operating income. Schedule 1 relates to the  
7 electric utility and Schedule 2 relates to the gas utility.

8 **Q. Please explain the information on these schedules.**

9 A. For the electric utility, line 20 on Exhibit 1, Schedule 1 in the UR-117 column shows the  
10 amount of \$19,930,000, which is the estimated net operating income for the test year under  
11 present rates. This amount is used to show MGE's projected rate of return on ratebase for the  
12 test year ending December 31, 2011, without a rate increase. This projected rate of return is  
13 then used in Exhibit 2, Schedule 3, line 3, presented by Company witness Kenneth G.  
14 Frassetto, to develop the revenue requirement for electric rates. Similarly, for the gas utility,  
15 line 18 on Exhibit 1, Schedule 2 in the UR-117 column shows the amount of \$9,399,000,  
16 which is the estimated net operating income for the test year under present rates. As with the  
17 electric utility, this amount is used to show MGE's estimated rate of return on ratebase for the  
18 test year ending December 31, 2011. This projected rate of return is then used in Exhibit 2,  
19 Schedule 3, line 12 to develop the revenue requirement for gas rates.

20 **Q. Please describe the methodology used in developing the operation and maintenance**  
21 **expense estimates shown on Schedule 1, lines 5 through 12 and Schedule 2, lines 4**  
22 **through 10 of Exhibit 1.**

23 A. The Company has approximately 90 responsibility centers (RC). Each RC budgets for  
24 expenditures based on various work activities it expects to perform. The RCs make estimates  
25 of both labor and nonlabor expenses. The labor and nonlabor cost estimates are combined to

1 form the individual RC budgets. The Budget Department, with the aid of other Company  
2 personnel where necessary, also budgets for items that are not covered by the budgets  
3 prepared by individual RCs. Total expense estimates are accumulated and translated into  
4 FERC accounts. These account estimates are compiled into an income statement that is  
5 reviewed by the Budget Department.

6 **Q. Are there any significant changes in operations and maintenance costs for 2011**  
7 **compared to your last rate case?**

8 A. Yes. Certain expenses have increased for both the electric utility and the gas utility.

9 **Q. What significant changes in electric utility operations and maintenance costs are**  
10 **projected to occur in 2011 as compared to MGE's last rate case?**

11 A. The following electric utility expense items account for much of the increase as compared to  
12 our last rate case:

- 13 1. Elm Road Generating Station (ERGS) Unit 1 became operational on February 2, 2010,  
14 and ERGS Unit 2 is scheduled to become operational August 29, 2010. As I explain later  
15 in my testimony, these new cleaner coal units will result in increased costs as a result of  
16 reflecting a full year of lease payments and operational expenses associated with ERGS  
17 Unit 2.
- 18 2. The investment required for necessary environmental upgrades at the Columbia  
19 generating plant as proposed in Docket 5-CE-138.
- 20 3. Increased transmission-related costs associated with the American Transmission  
21 Company LLC and Midwest Independent Transmission System Operator, Inc.  
22 (Midwest ISO) necessary to maintain electric reliability.
- 23 4. Costs related to outside services due to regulation and compliance matters and inclusion  
24 of the costs associated with the federal smart grid stimulus program.

1 **Q. What significant changes in gas operations and maintenance costs do you anticipate for**  
2 **2011 compared to your last rate case?**

3 A. Other costs that have increased for the gas utility include outside services due to regulation  
4 and compliance matters.

5 **Q. Please explain the data contained on Exhibit 1, Schedule 3.**

6 A. Schedule 3 provides the basic data required for developing the average net investment  
7 ratebase for the electric utility during the test year. Columns 1, 2, 4, 5, and 6 show the  
8 component parts of the ratebase, resulting in the net amounts shown in Column 7. Column 8  
9 shows the amounts of construction work in progress estimated for each month. All the  
10 foregoing amounts are then totaled on line 14, and an average is developed on line 15 for each  
11 column by dividing the total by 13. The average net investment ratebase for electric operations  
12 for the test year is \$431,387,000 as shown on line 15, Column 7. Also developed on this  
13 schedule is the percentage of construction work in progress (CWIP) to net investment  
14 ratebase. The percentage for the test year is 14.37% as shown on line 18 of Column 8.

15 **Q. Are there any large projects included in the 2011 construction work in progress balance**  
16 **for the electric utility?**

17 A. Yes. Approximately \$33 million (13-month average) is included for the Columbia  
18 environmental project proposed in Docket 5-CE-138. Utilities would usually propose 100%  
19 current return on CWIP for large construction projects. However, in an effort to lower the rate  
20 impact, MGE is proposing this construction project be treated similar to other smaller utility  
21 construction projects with 50% AFUDC and 50% current return on CWIP.

22 **Q. Will you now turn to Exhibit 1, Schedule 4 and explain the information contained on**  
23 **that page.**

24 A. Schedule 4 pertains to the gas utility. It is set up in the same manner as Schedule 3 and has  
25 been computed in the same way. It should be noted the average gas net investment ratebase  
26 for the test year is \$137,096,000 and the percentage of construction work in progress to  
27 average net investment ratebase is 2.80%.

1 **Q. Please describe the factors contributing to the increase in electric rates.**

2 A. Some of the contributing factors are:

- 3 1. Generation Costs. MGE is committed to providing a dependable, affordable and  
4 environmentally responsible supply of energy to its customers. To that end, MGE is  
5 involved in two major generation projects that are affecting 2011 rates.
  - 6 a. ERGS. ERGS Unit 1 became operational on February 2, 2010, and ERGS Unit 2 is  
7 scheduled to become operational August 29, 2010. The ERGS project was the largest  
8 single construction project ever undertaken in the State of Wisconsin. The  
9 100 megawatts of cleaner coal energy that the ERGS units produce on behalf of  
10 MGE will assure our customers of an adequate supply of energy while allowing  
11 MGE and its customers to be better stewards of the environment. In fact, the  
12 operation of ERGS Unit 1 will allow MGE to stop burning coal at its downtown  
13 Madison Blount generating plant. The addition of the second ERGS unit will  
14 increase lease payments and O&M expense obligations substantially over those  
15 allowed in current rates.
  - 16 b. Columbia. The two baseload units at Columbia require upgrades to comply with  
17 current federal environmental standards. Contingent upon Commission approval in  
18 Docket 5-CE-138, MGE will be investing \$140 million in a scrubber project that will  
19 provide our customers with cleaner energy.
- 20 2. Transmission-related costs. As noted earlier, the charges the Company will be assessed  
21 for reliability purposes by ATC and Midwest ISO have also increased.
- 22 3. Sales. There is a decrease in the Company's sales forecast for 2011 as compared to the  
23 forecasts the Commission relied upon in setting MGE's rates for 2010.

1 **Q. Please describe the cost control measures MGE has implemented to minimize the**  
2 **necessary increases in electric and gas rates.**

3 A. MGE took a number of steps to control costs and keep the requested increase as low as  
4 possible. These included:

- 5 1. In connection with the start-up of the cleaner coal ERGS units and conversion of the  
6 Blount plant from coal to gas, MGE reduced the workforce at its Blount generating plant  
7 by 28 positions.
- 8 2. MGE performed a thorough review of all positions included in its 2010 rate case and  
9 eliminated an additional 22 positions (over and above the reductions in Blount positions)  
10 for the 2011 test year.
- 11 3. Despite the elimination of these positions (which resulted in a reduction in employee  
12 positions in excess of 5%), MGE is projecting its vacancy rate percentage at 2%. The  
13 Company's CEO will review each open position with the goal of filling only critical  
14 positions (those necessary for safety, reliability or compliance).
- 15 4. MGE froze officer salaries in both 2009 and 2010.
- 16 5. MGE made additional non-required cash contributions to the pension fund in order to  
17 reduce pension expense for the 2011 test year.
- 18 6. At shareholder expense, MGE undertook a review that will lead to a change in its  
19 income tax methods of accounting for repairs based on Treasury regulations and case  
20 law. This aggressive tax change will allow MGE an additional one-time tax savings in  
21 2009 of \$9.2 million (with a corresponding increase in deferred taxes). This change will  
22 benefit customers both by creating cash flow and reducing ratebase.
- 23 7. An increase in depreciation was kept to a minimum because of the depreciation study  
24 (Docket 3270-DU-103) MGE filed in 2009 that instituted new lower rates beginning in  
25 2010.

1 8. MGE required all of its responsibility centers to scrutinize their budgets to ensure they  
2 were at their lowest possible level while still providing safe and reliable energy to  
3 customers and complying with all governmental requirements.

4 **Q. Ms. Johnson, are you aware of any items that will need to be updated during the rate**  
5 **case proceeding?**

6 A. Yes. The following items may need to be updated when additional information is available:

- 7 1. Electric fuel and purchased power costs. These will be updated before the Commission  
8 makes its decision to reflect projected gas costs based on the most recent 12-month  
9 NYMEX strip and the Cinergy Hub Energy Futures for 2011.
- 10 2. Pension and benefit costs. These will be updated, if necessary, during the audit or before  
11 the hearings to reflect current market conditions.
- 12 3. Costs associated with ERGS, if applicable.
- 13 4. ATC network service fee (update estimate provided by ATC on October 1 of each year).
- 14 5. Insurance rates according to the most recent information available during audit.
- 15 6. Adjust the revenue requirement to incorporate the effect of H.R. 3962 - Affordable  
16 Health Care for America Act health care bill (which effect is not included in this filing).
- 17 7. Any adjustment needed to adopt revenue requirement changes made necessary by  
18 subsequent federal or state legislation.

19 **Q. Is the proposed amount to be included in rates for MGE's costs in this proceeding less**  
20 **than four times the total amount assessed to the Company under Sections 196.85(1) and**  
21 **(2) of the Wisconsin Statutes?**

22 A. Yes.

23 **Q. Does that conclude your direct testimony?**

24 A. Yes.